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## ABSTRACT

As in many other industrialized countries, advances in computer technology are transforming Germany's industrial society into an information and services society. Increasingly fewer jobs are available in traditional industries and in the public sector. In the 1990s, Germany's trade unions and employers' associations have experienced steady declines in membership. Regional collective agreements have become the main problem for employers' associations and trade unions. Although both sides have acknowledged that the regional collective agreement model needs a thorough overhaul, their proposals for revising the model remain far apart. Research has shown that most Germans are now generally ready to accept flexible organization of their working hours from Monday to Saturday. The 1996 legislation on old-age part-time work represents an attempt by Germany's government to accomplish three things: meet older workers' wishes for a gradual transition into retirement, make older workers financially able to vacate their posts for younger workers, and stop the practice of early retirement, thereby relieving the burden on the pension insurance system. If Germany is to maintain its success on the world market in the new global economy, unions and management must redefine their own functions and adjust their decades-old functioning social partnership accordingly. (MN)

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IN-PRESS

Social Policy

## Safeguarding and creating jobs is a sign of social responsibility

### Changing trade unions and management in Germany

by

Hermann Horstkotte

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## Changing unions and management in Germany (Internet abstract)

Seven years after German reunification, unions and management in Germany are experiencing radical change. This paper explains how their structures are changing and how they are seeking new approaches to wages and working hours in order to safeguard existing and to create new jobs.

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## INTRODUCTION

According to a representative survey from autumn 1997, the Germans' greatest worry is the country's high level of unemployment. The threat of unemployment is causing more concern than issues like crime or the destruction of the environment. It dominates or forms a backdrop to most of the discussions when people talk to each other or in the media about the future of the economy and society. Work has become a political issue. On the brink of the new millennium, broad sections of the population believe that "Safeguarding and creating jobs is a sign of social responsibility", and they place great expectations in the abilities of government, employers and unions to act.

In 1997, almost 34 million people were in regular employment in Germany, i.e. in a job for which social security contributions had to be paid. Five million or more of these were employed in the public sector, an area which offers high job security, an advantage that the 29 million people in industry, crafts, trade and commerce do not have.

Three and a half million people in Germany are considered to be self-employed or unpaid helpers in the family business. And, finally, there are between 4 and 5 million people doing jobs which pay less than DM 620 a month: they are students, pensioners, housewives or persons on low incomes with a second job (who can earn up to DM 620 a month on top of their low wage).

In the service sector in particular, and especially in retail and fast-food chains and the cleaning industry, the number of such "620 mark" jobs has recently increased rapidly, because they do not entail the payment of contributions towards pension, unemployment and health insurance (which both the employee and the employer are obliged to pay when the wage is higher). The employer pays only a lump-sum tax of 23 per cent. Since this low-wage job arrangement also favours the conversion of higher-paid jobs into lower-paid ones so as to avoid having to pay social security contributions, politicians in the CDU and the SPD and union leaders have recently been calling for the rules to be tightened. The FDP and the employers' associations do not see any need for such a step.

In addition to the high number of persons in employment in Germany, there are more than 4 million unemployed people, ten per cent of them young people, many of whom are engaged in a long and fruitless search for a job or training place. A lot of companies hesitate before taking

new workers on in Germany, firstly because the wage level and the non-wage labour costs are often far lower abroad, and secondly because investment in the latest technology, from the robot to office communications, may be more rational than the recruitment of new staff. In economic terms, saving on personnel results in further increases in productivity, boosts share prices and ensures survival in national and international competition.

The public sector is creating hardly any new jobs any more. For years, it has been systematically shedding staff (to achieve "lean government"). Many permanent jobs are marked down as "not to be replaced" once the person currently holding the post resigns or retires.

In view of this dramatic situation, Germany's representatives of management and unions - partners in the social market economy, which has functioned well for the last 50 years or so - are reviewing their structures, strategies and actions. This paper provides information on the main problems and the ideas of unions and management about safeguarding their own survival and that of the people and companies they represent into the 21st century.

## **1. On the way to an information and services society**

The gap between the industrial countries and many emerging economies has been visibly narrowing in recent years. The world is changing from an industrial society to an information and services society whose tool is the personal computer. To use it, it is not necessary to be in a particular location, in contrast with agricultural production, and, to some extent, traditional manufacturing. Computer work is now possible right around the world, under the same technical conditions and in the same quality.

In the 1950s, the steel mill built with German assistance in Rourkela in India was a global symbol for the modernisation of commerce and society, similar to the industrial revolution in the 19th century. Cooperation took place in one direction only, from the industrial to the developing countries. In contrast, the following are typical examples of technological cooperation today: the computer-driven handling logistics in the container docks of the international German port of Bremerhaven come from India. Deutsche Bank, Europe's largest financial service company, has parts of its computer software serviced in India. And the German airline, Lufthansa, has moved the processing of reservations to the subcontinent. Siemens, the German electronics firm, is having its "Electronic Worldwide Digital Switching System" developed at its Bangalore subsidiary.

At present in Germany, some 12 million people are employed in manufacturing. The latest manufacturing technology will not cause this figure to increase, as the example of mobile phones made by Siemens shows: only one per cent of the manufacturing costs are wage costs.

Only just under eight million people work in the services sector. In the mid-1990s, 150,000 people were "teleworkers" in Germany; in the United Kingdom, the figure was 560,000, almost four times as high. In fact, one in 45 people in work in Britain earned their money in front of a screen, but only one in 191 in Germany. The Institut der deutschen Wirtschaft anticipates a potential of three million telejobs, i.e. twenty times today's level. One reason for the slow spread of these new jobs is that one of their effects is to destroy old ones. For example, Deutsche Telekom plans to cut its present workforce of 230,000 by 60,000 by the year 2000 - in order to be able to compete with international rivals on the German market. However, the "social partners" - unions and management - first have to agree on a socially acceptable redundancy scheme.

Everyone in a high-wage country like Germany knows that there is less and less work available in traditional industries. Steel companies merge and shed jobs so that they can use the latest technology to survive in the international competition with firms in Latin America and south-east Asia. When, in 1997, the Vulkan shipyard in Bremen, which had long been kept afloat using government subsidies, collapsed, a US-trained manager of the Polish shipyard centre in Szczecin said that the German skilled workers would be most welcome in Poland - but on Polish terms and conditions. But there will not be many German shipyard workers who can accept that sort of wage level if they want to maintain their families' standards of living.

Meissner und Wurst, a company based in Berlin and elsewhere in Germany which is now part of the Jenoptik group, is an outstanding example of flexibility and expansion with an eye to the future. It started life early this century making extractors for dust and splinters in carpenters' workshops. It is now bigger and better than ever, because it has developed via air-conditioning to become a world leader in the clean and super-clean room technology needed for the manufacture of computer chips.

However companies adapt to global competition, their survival strategies, in which software and robots usually take priority over people, threaten the existence of trade unions around the world. After all, the unions are generally sectoral organisations with large numbers of members and hundred-year-plus traditions. According to calculations by the International Labour Office

in Geneva, only 12 per cent of the world's 1.3 billion workers are now union members. In Germany, the figure is 29 per cent. The members - and their membership fees - are vanishing along with the jobs. Within a few years, the tough workers' organisations fighting for fair wages, social security and decent working conditions might turn into veterans' clubs. Unable to survive in the long term, it will not be long before they decide to close down.

This has already happened with the union of German textile and clothing workers. It closed in 1997, 106 years after it was founded, its membership (in western Germany) having dropped from 880,000 to 210,000 (in 1996) over 25 years. The union passed its remaining 190,000 members over to the metal-workers' union in 1997.

The latter is the largest single union in the world, and it is securing its survival by more than just mergers: it intends to negotiate wage agreements and rules on working hours with employers for other people outside its core industry, e.g. for the teleworkers mentioned above.

## **2. Changes in the trade union system**

The main voice of the unionised workforce in Germany is the Düsseldorf-based German Trade Union Federation (DGB), with its eleven individual sector-specific trade unions. The DGB unions evolved from the class-struggle-oriented workers' movement of the last century. Another grouping, the Christian Trade Union Federation of Germany (CGB), which was set up at the same time with a commitment to religious principles, plays only a minor role in comparison. And, finally, there is the influential German Salaried Employees Union (DAG). Its members are white-collar workers. In collective bargaining sessions with employers, the DAG and the DGB unions sit side by side on the employees' side of the table.

Germany's trade unions have been attracting fewer and fewer new members in the 1990s. Their membership figures are declining further with each year. In 1996, only 8.9 million workers were union members - the level had at one time stood at 11.8 million. 29 per cent of people in dependent employment in Germany are union members. In Britain, the figure is 33 per cent, in France 9 per cent.

The declining membership levels are causing unions in Germany to merge. In 1996, the Industrial Trade Union "Construction-Agriculture-Environment" (IG BAU) was formed from a merger of the building workers' union and the much smaller unions representing horticultural,

agricultural and forestry workers. In 1997, the three industrial trade unions "Mining and Energy", "Leather" and "Chemicals-Paper-Ceramics" merged to form the Industrial Trade Union "Mining, Chemicals, Energy" (IG BCE). Like the union of textile and clothing workers, the union for the wood and plastics industry opted for merger with the metal workers. The number of separate trade unions represented by the DGB thus fell from 16 to 11.

| SEPARATE TRADE UNIONS IN THE DGB                              | MEMBERS   |
|---------------------------------------------------------------|-----------|
| Metal workers (incl. textiles/clothing and wood and plastics) | 3,111,221 |
| Public service, transport and traffic                         | 1,712,149 |
| Mining, chemicals, energy                                     | 1,052,143 |
| Construction, agriculture, environment                        | 692,466   |
| Postal workers                                                | 513,322   |
| Trade, banks and insurance                                    | 505,405   |
| Railway workers                                               | 382,113   |
| Food industry, catering and restaurant workers                | 310,891   |
| Education and science                                         | 296,232   |
| Police                                                        | 199,421   |
| Media                                                         | 197,309   |

The postal workers' union, the trade, banks and insurance union and the media union intend to merge in 2000 in order to boost their effectiveness and save on running costs. Inevitably, therefore, job cuts are on the agenda not only of the companies, but also of the unions.

### 3. Changes on the management side

The Confederation of German Employers' Associations (BDA) is the umbrella organisation responsible for social policy on the employers' side, and thus the counterpart to the DGB and the DAG. It is based in Cologne and its membership consists of 15 Länder and 49 sectoral associations. Like the DGB, it is an umbrella association. Wage negotiations are conducted by the relevant sectoral associations with the appropriate trade unions, e.g. between the Bavarian employers' association and the corresponding district organisations of the metal-workers' union.

As with the trade unions, membership is voluntary. A number of companies - including multinationals like Volkswagen AG - are not a member of any employers' association. Such

companies negotiate their own collective company agreement with the trade unions. They obtain support and advice on matters of labour law, which the associations can provide for member companies, from their in-house lawyers or specialist lawyers' chambers.

The employers' associations have also been losing members in recent years. Some companies have threatened to leave, some have actually done so, some have closed down. One key bone of contention: the collectively agreed rules on sick pay. Large companies can calculate how much this is likely to cost them, but it is hard to predict in smaller companies and can threaten their survival. Following a change in the law permitting cuts in sick pay allowances, the smaller companies would have liked to introduce the cuts and even risk the strike threatened by the unions. But since the large companies felt that the related production losses would have outweighed any gains and were using the retention of sick pay arrangements as a card in their negotiations on wages and conditions with the unions, the other members had to put up with this policy.

However, the "regional collective agreement" has become the main problem for the employers' associations - and for their partners on the trade union side. It stipulates bindingly the regions or Länder for which the negotiated wage categories, working hours, holiday entitlements etc. apply. Many companies, particularly those in a more troubled commercial position, are demanding that more consideration be given to their individual situation. Numerous firms, especially in the new Länder, are already paying less than the collectively agreed rates. Others are saying that they should be allowed to agree wages that are temporarily below the collective level with their own workforce. In both cases, the idea is that the company and the jobs should survive. The workers affected often see this the same way and call on their unions to give way.

#### **4. The future of the regional collective agreement**

"The esteemed regional collective agreement has proved its worth, but needs a thorough overhaul, and both sides of the collective bargaining system agree on this." With these words, the President of the "Gesamtmetall" employers' association, Werner Stumpfe, recently presented the "Frankfurt Declaration" of the employers' associations in the metal-working industry. Its aim is a framework collective agreement to be fleshed out by companies and works councils.

According to this model, the collective agreements would in future contain a simple set of minimum conditions subject to in-company revision. Depending on the economic situation, the

company management and the workers' representatives in the company can agree on other conditions. These might include, for example, the introduction of "performance-related pay components". This would mean that the monthly wages and salaries would continue to be governed on the basis of the regional collective agreement, so that employees would be guaranteed a secure earnings basis. But the employers' associations in the metal industry would like one-off payments such as Christmas and holiday bonuses or saving schemes to be oriented to the company's performance. In other words, if the company is in the red, the workforce go away empty-handed. But if it makes a profit, they may even receive bonuses above the collectively agreed level.

Instead of rigid weekly working hours, the "Frankfurt Declaration" calls for a collectively agreed margin of between 30 and 40 hours a week. "A modern collective agreement must make it possible for the workers to be able to secure the competitiveness of the company, their jobs and their incomes by temporarily working longer hours without extra pay."

The employers are also proposing new approaches on conflict avoidance and resolution to the metal-workers' union. They believe that strikes by the workforce and lock-outs by the employers are outdated battle rituals. The ensuing production losses cause irreparable harm in the face of global competition. Instead, the "Frankfurt Declaration" says, both sides should look more to the timely use of arbitration.

"The employers say 'in line with operational needs', but they mean 'union-free' ". That was the response to the employers' declaration from Klaus Zwickel, head of the metal-workers' union, at a congress on reforming the regional collective agreement in Darmstadt. Shifting decision-making away from the unions and into the works councils, as advocated by the employers, would undermine the right to strike. According to the Works Constitution Act, the members of the works council, representing and elected by the company workforce, are not allowed to strike during industrial disputes.

The metal-workers' union, Zwickel went on to say, will not under any circumstances give up the constitutional right of the unions and management to conclude agreements which virtually have the force of law. Against the background of 4.5 million unemployed, only trade unions covering the workers of more than one company would be able to successfully resist attempts by companies to "intimidate" the workers. This did not imply distrust of the abilities of works councils but, said Klaus Zwickel, reflected "an understanding of the structural dependencies"

inevitably affecting in-company workers' representatives. Nor did the employers' call for a flexible working week of between 30 and 40 hours meet with a positive reaction. The union sees this as a route back to the 40-hour week. Anyone could see that that would make the unemployment situation even worse.

The metal-workers' union presented a "twelve-point paper" at its Darmstadt conference with its own ideas on how the regional collective agreement should be reformed. It continues to rely on independent collective bargaining between unions and management. In this way, according to *HANDELSBLATT*, the union aims to permit "two alternatives at company level to create a collective framework for new production concepts and changed work patterns, for groups and project work, for pay and conditions and for training." Firstly, the collective agreement would contain a "set of possibilities", e.g. on work assessment, wage-setting, or overtime, from which companies would be able to select the appropriate components. Also, additional company-specific agreements might be feasible. However, according to the union, that would require the establishment of a collective bargaining commission and the introduction of the right to organise a company-specific strike.

The positions of the two sides are therefore far apart. If the coming negotiations between the metal-workers' union and management on a fundamental reform of the regional collective agreement are to end successfully, there will have to be a very large degree of compromise on both sides.

## **5. Flexible working hours**

"On Saturdays, Daddy belongs to me" - that was the eye-catching slogan used by the unions some decades ago when the five-day working week was being introduced. In addition, the regular working week in Germany declined from 40 hours in 1984 to 37.4 hours in 1996. Industrial workers even have a 35.8-hour working week. As a result, western German industry now has the shortest working week and year in the world.

But the unions' slogan has long since ceased to apply everywhere. EMNID Bielefeld recently conducted a survey on behalf of the Institut der deutschen Wirtschaft, a Cologne-based organisation close to employers' interests, and found that a majority of people in work are generally ready to accept a flexible organisation of their working hours from Monday to Saturday - particularly if it means bonus payments. This, together with longer plant-use

periods, can lessen the disadvantage of relatively short individual working hours. In return for the shorter working week, the unions gave the employers greater scope on organising the working week in the individual company. Many collective agreements now permit fluctuations in the working week over a year or over lengthy periods without additional costs like overtime rates being incurred.

In this way, for example, the reintroduction of Saturday as a regular working day at the car-maker Daimler-Benz was no problem. "Overtime" has almost become a foreign concept. The workers now have "working hour accounts" in which extra work and free shifts are balanced out over a year. The same model applies to the confectionery industry. Before major feast days, chocolate is produced around the clock. At other times, particularly in summer, the workers can use the extra hours they worked beyond the basic 35-hour week for time off. The retail trade also has similar agreements between the workforce and the management. The giant Kaufhof department store chain, for example, has a monthly staff plan based on expected customer levels and including special projects like stock-taking. More leisure time in the slack summer months balances out the stress during peak periods like sales or the run-up to major holidays.

The construction workers are different. They have a longer working day in summer and thus build up hours for the winter, when work often has to stop because of bad weather. The current arrangement is that they keep being paid during the "cold months" in line with the extra hours worked in the summer. The system used to be different: in summer they did overtime, and in winter they registered as unemployed and received a so-called "bad-weather allowance" from the unemployment insurance fund. But when this privilege - paid for by society in general - was abolished by parliament, unions and management changed the system.

There is also a principle that deviations from the collective agreement are permitted if they are to the benefit of the employees. In the past, this mainly meant pay rates in excess of the collective rate. Lawyers specialising in labour law and the Labour Courts have now come to the conclusion that this principle also permits deviations below the collective agreement if this safeguards existing or creates new jobs. Correspondingly, Viessmann, a heating technology manufacturer in Hesse, agreed an increase in the working week from the 35 hours stipulated in the collective agreement to 38 hours, without extra pay. In return, the management not only agreed not to open a new factory in the Czech Republic (where costs are lower), but also created 200 extra jobs at the German headquarters.

## **6. "Old-age part-time work" as a bridge to new recruitment**

The Act on old-age part-time work, which has been in force since 1 August 1996, represents an attempt by the German government to kill three birds with one stone. Firstly, it aims to meet the wish of older workers to have a gradual transition into retirement. Secondly, if older workers receive appropriate compensation for loss of earnings, they should be able to vacate their posts for younger workers. And, thirdly, this approach aims to stop the previous - expensive - practice of early retirement and relieve the burden on the pension insurance system.

The Federal Labour Office gives financial support to this system of old-age part-time work under two conditions. Firstly: the employee halves his working hours once he is 55 years old. How the rest of the working hours are divided up is a matter for the company and the contracting parties. And secondly: the job vacancy produced in this way is refilled via the recruitment of an unemployed person or a trainee who has successfully completed his training.

Under the system, the older person receives 70 per cent of his full-time net wage until he becomes 60. The costs of this are initially borne by the company, which receives a 20 per cent grant from the Federal Labour Office once the post has been refilled.

On this new legal basis, unions and management have now concluded corresponding collective agreements on part-time work for older workers in numerous branches of industry and in a whole range of companies. "For half the day, Grandad belongs to me" was the headline of an article in DIE ZEIT on the model agreed by unions and management in the metal-working industry in south-west Germany in autumn 1997.

In fact, under that specific arrangement, the older worker continues to receive 82 per cent of his last net wage. And 95 per cent of the contributions towards pension insurance continue to be paid by the employer into the relevant funds. This makes it easier for the worker to accept the loss of holiday and Christmas bonuses. Not surprisingly, the unions regard this solution as a model for the rest of the country. After all, 320,000 of the employees in the western German metal-working industry were aged over 55 in 1994. As DIE ZEIT went on to report, the metal-workers' union hopes that the use of this part-time arrangement for older workers will have "an impact on the labour market equivalent to an hour's cut in the working week".

## OUTLOOK

The functioning social partnership between unions and employers' associations has been an advantage for Germany in global competition for decades. There are few strikes in Germany. Orders can therefore be fulfilled on time around the world. The lack of industrial strife has also been a major factor underpinning the political stability of German post-war democracy for almost 50 years.

Since the days of Ludwig Erhard, the father of the "economic miracle", Germany has been a strong advocate of free world trade which forces individual countries to keep improving conditions for investment. Success on the world market is the best guarantor of a job. However, companies and workers' representatives are increasingly sensing that more and more countries around the world are also becoming top economic performers and can often manufacture their products more cheaply. Globalisation has resulted in new forms of competition. And they in turn produce new forms of company organisation.

"Originally, the regional collective agreement was intended to define the minimum conditions for work for as many companies in a sector or region as possible and thus to prevent destructive competition," wrote Dagmar Deckstein, business editor at the Munich-based SÜDDEUTSCHE ZEITUNG. "But this competition," she went on, "has long since ceased to be concentrated on the companies organised in the association and the workers employed by them." It has now taken on an international dimension, not only for capital, but also for labour. Since there are more and more cases of companies leaving the employers' associations and the collective bargaining system, Ms Deckstein believes that part of the solution to the current problems must be for unions and employers' associations to "redefine their own function".

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